

Kentucky Agricultural Development Board

Minutes of the March Board Meeting

The regular meeting of the Kentucky Agricultural Development Board was held on **March 19, 2004** at **1:00 p.m.**, at the KY History Center, Brown-Forman Room. Commissioner Richie Farmer, presiding, called the meeting to order, and the Secretary called the roll.

Members Present

Vickie Yates Brown, Danny Case, Larry Clay, Commissioner Richie Farmer, Susan Harkins, Wayne Hunt, Sam Lawson, Sam Moore, Willa H. Poynter, Eddie Sellers, Mike Slaughter, Dean M. Scott Smith, Sidney Stewart, Smith Mitchell designee for Secretary Gene Strong

Members Absent

Governor Ernie Fletcher

Others Present

Staff - David Bratcher, Sandy Gardner, Bill Hearn, Marjorie May, Bill McCloskey, Joel Neaveill, Brad Nelson, Keith Rogers, Bradley Wellons, Stephen Yates **Guests** – Tom French, Purchase Area Aquaculture Cooperative (PAAC); Dan Bonk, PAAC; Joe M. Currin, PAAC; Larry Snell, KY Center for Cooperative Development (KCCD); Robert L. Volk, KY Division of Forestry; Sharon Burton, The Farmer's Pride; Angela Caporelli, KY Department of Agriculture (KDA); Don Van Erden, The Van Erden Group; George Heeger, Northern KY Farmers' Market; Steve Coleman, Division of Conservation; Brent Frazier, KDA; Bill Dohn, Purchase of Agriculture Conservation Easements (PACE); David Neville, PACE; Biff Baker, Legislative Research Commission (LRC); Lowell Atchley, LRC; Bob Sand, The Beef Connection, LLC; Bob Bates, Fish & Wildlife Resources; Laura Powers, KCCD; Rick Kamuf, West Kentucky Growers Cooperative (WKGC); Garry Eblen, WKGC; Gae Broadwater, KY State University; Blake Oliver, Community Farm Alliance; Bernard Kranye, WKGC; Matt John, Shady Lane Poultry

Notification of Media

Commissioner Farmer received verification from Keith L. Rogers, Chief Executive Officer, that the media had received notice regarding the Agricultural Development Board meeting.

Welcome

Commissioner Farmer welcomed everyone to the meeting and commented on the number of guests in attendance.

Approval of Minutes

The minutes of the February 20, 2004 meeting were approved as presented.

Executive Director's Report

Commissioner Farmer yielded the floor to Keith Rogers for the Executive Director's Report.

Mr. Rogers noted that the presentations would be made before his report. Mr. Rogers pointed out that Commissioner Bennett was called out of state for a meeting and will not be presenting today.

Mr. Rogers yielded the floor to Don Van Erden, The Van Erden Group, for a presentation of the feasibility and marketing study for the **Mobile Processing Unit (MPU)**.

Mr. Van Erden reviewed the study process. First, ten species were identified that might have market potential and could be processed by the MPU. Second, primary research among Kentucky white tablecloth restaurants was conducted to determine interest and volume potential. Next, a market-side analysis of species determined to have interest and volume potential were identified.

Mr. Van Erden reviewed the results of the restaurant survey concerning interest in Kentucky grown species that could be processed by the MPU. He noted that there was interest in 9 of the 10 species identified. He pointed out that there was no opportunity in organic chicken, due to high prices and marketplace confusion over identity.

Mr. Van Erden reviewed the varied role of the MPU over time and by species. He noted that the MPU would have a permanent role for some species/products and a "test bed" role for others.

Mr. Van Erden reviewed the role of the MPU and the market opportunity by species. He reviewed rabbit, free-range chicken, quail, Cornish game hens, catfish, shrimp, bass, trout, and red claw crayfish.

Mr. Van Erden pointed out that there was a significant geographic skew in terms of in-state restaurant potential. He noted that Louisville and Lexington show the highest potential for Kentucky products that can be processed by the MPU, while there is little opportunity in the Northern Kentucky area.

Mr. Van Erden noted that there is little evidence that additional docking stations are needed now, but should be considered as markets develop. He pointed out that as markets and volume develop, then an additional docking station in each of the western and eastern parts of the state. He also noted that the docking station should be located near the area to be served, not where the producers are located, for efficiency.

Mr. Van Erden reviewed the point that making a diverse and statewide group of farmers aware of the MPU and its capabilities will be crucial to its success. He noted that this might be one of the most important findings.

Mr. Van Erden reviewed the reasons that farmers processing and marketing via the MPU need to know how and where to market their products to be successful.

Mr. Van Erden reviewed the reasons that the current climate in the food industry appears to be beneficial for the processing and marketing of locally grown products.

Mr. Van Erden turned the presentation over to Gae Broadwater, Kentucky State University (KSU) Land Grant Program, to review the financial/economic components of the project. Ms. Broadwater introduced herself and provided a little background on the MPU project.

Ms. Broadwater introduced Steve Skelton, the coordinator for the MPU.

Ms. Broadwater reviewed the fixed costs for the MPU, both annual and monthly. She pointed out that costs for the coordinator and other items existed, but were being covered through KSU.

Ms. Broadwater reviewed the prediction of year one usage of the MPU by docking station location by species.

Angela Capporelli, KY Department of Agriculture, provided a description of the Mobile Processing Unit (MPU). She noted that this one is the only one of its kind in the nation, and other states have asked for copies of the plans.

Ms. Broadwater reviewed the distribution of fixed expenses for use of the MPU across species. She noted that through preliminary numbers it did not look like it could break even.

Ms. Broadwater reviewed her recommendations:

1. Build strong relationships with current producers and increase demand for MPU;
2. Examine and amend existing HACCP plans;
3. Complete two-year demonstration before building more docking stations;
4. Explore how to advocate for small livestock to be included in future Agriculture Census surveys;
5. Develop enterprise budgets for small farm operations with selected species mentioned in this study;
6. Increase awareness of the need for product liability insurance; and,
7. Explore increasing the number and types of animals the MPU can process.

Mr. Van Erden commented that there is opportunity for MPU, but there are hurdles ahead.

Mr. Rogers thanked Mr. Van Erden and Ms. Broadwater, and asked if the Board had any questions.

Ms. Harkins asked how one would sign up to use the MPU. Ms. Broadwater noted that Steve Skelton, the MPU Coordinator at KSU, is who should be contacted.

Ms. Caporelli noted that there is a poultry training session May 19, 20. If any of the members want to see how the unit works, then feel free to stop by for a visit.

Mr. Rogers turned the meeting over to the Purchase of Agriculture Conservation Easements (PACE). Bill Dohn introduced himself and distributed a letter from David G. Sawyer, State Conservationist.

Mr. Dohn reviewed why he got involved in the program and why the PACE Board was making a presentation. He pointed at that they were asking for additional money and were under a time constraint.

Mr. Dohn noted that he had several farmers present to give their perspective.

Ann McIntosh of Logan County shared with the Board her personal experience with the program, as well as her views on preserving farmland.

David Neville of Shelby County thanked the Board for having them. He pointed out that he and his wife were one of the first PACE recipients. He shared his experience with the PACE program and his view of farmland and farm family preservation.

Mr. Neville addressed some of the myths and comments that he has heard regarding the PACE program, such as "Why should farmers be paid to continue to farm?"

Mr. Neville pointed out that the easement is attached to the deed for the land, so that it continues in perpetuity, whereas some programs have a limited affect time wise.

Mr. Neville asked if there were any questions about the program.

Libby Jones wrapped up the presentation of the PACE program. She distributed the map showing locations of current easements purchased by the program. Ms. Jones reviewed the number of acres under the program.

Ms. Jones pointed out that Kentucky has currently been earmarked \$2.3 million in federal funds for conservation easements, to be matched 50%. Ms. Jones made a plea for additional funding for the PACE program, recognizing that there are many needs vying for Agricultural Development Funds. Ms. Jones left copies of a PowerPoint presentation prepared by PACE staff for the Board. Ms. Jones also noted that the application deadline for USDA funds is May 3.

Mr. Rogers noted that the purpose of their presentation was that they have a 45-day window for garnering matching funds for the USDA Request for Proposals to which they are applying.

The floor was opened for questions.

Mr. Hunt asked what the qualifications had to be met to receive PACE funds. Brent Frazier noted that anyone with title to farmland could apply and that there is a scoring system in place for ranking applications. Mr. Hunt asked about details of the scoring system. Mr. Frazier indicated that soil productivity (type) accounted for about 50% of the score; other scoring criterion includes distance from urban areas, amount of farmland in production, etc.

Ms. Harkins asked if a backlog of applications existed. Mr. Frazier stated that there were 550 pending applications from 72 counties. Mr. Dohn added that those applications totaled about \$100 million.

Mr. Rogers asked how many of the current applications were appraised or ranked. Mr. Frazier indicated that applications received before September 30, 2003 were ranked in January 2004: 85% ranked; 4 appraisals. Mr. Frazier also noted that it takes 30 days to do the appraisals, because of bidding process.

Ms. Harkins asked if there was any consideration for tobacco dependency. Mr. Frazier indicated that there were points for tobacco dependency in the scoring.

Mr. Rogers asked for clarification that points were based on the county's or individual's tobacco dependency. Mr. Frazier indicated that points were based on the county's dependency.

Ms. Brown asked if the request was for half of the \$2.3 million and if there were other funding sources being sought. Mr. Dohn indicated that the request was for about half and that no other sources were available or being sought.

Ms. Jones noted that some farmers are willing to take much less than the value of the farm, or have donated land to the program.

Mr. Moore asked about the average cost per acre. Mr. Frazier stated that the average cost per acre is \$863. Mr. Dohn noted that the average size farm in the program is 210 acres. Mr. Dohn clarified that both of these numbers exclude donations, and are only based on actual purchases.

Ms. Brown asked if all [the Board] needs to do is make a pledge. Mr. Rogers noted that there was no actual application before the Board, so the Board could do as they wish. Staff is not making a recommendation or asking the Board to make a decision on this issue. Mr. Rogers noted that if the Board did choose to entertain an application in April, then a letter of commitment would be needed before applying for Federal funds in May.

Ms. Brown asked what is available currently for state projects. Mr. Rogers estimated that there was approximately \$7 million in cash, an April payment of \$11.2 to \$11.3 million; this is a total of \$18 million to operate through April 2005.

Mr. Moore asked when the money for the bond issue comes out: the first or second year of the biennium. Mr. Rogers noted that the first payment of the \$63 million bond in House budget for water and sewer will come out of fiscal year.

Mr. Moore asked if there is a guarantee of \$11.2 million in April, or if the budget could affect this number. Mr. Rogers indicated that this budget will affect the April payment.

Mr. Rogers asked how many of pending PACE applications could be affected if PACE received the \$2.3 million federal and the matching funds from some source. Mr. Dohn indicated that it is difficult to determine off top of head. Mr. Hunt pointed out that by the averages they provided earlier in the meeting they could serve about

27 farmers. Mr. Rogers asked for clarification on the ranking: do they go down the ranked list and award funds in order of first, second, third, etc. Ms. Jones answered that they try to serve as many farmers as possible; so for example, if skipping one large farm allows them to serve more farmers, then they will do so.

Ms. Jones noted that they are trying to target tobacco dependent counties to participate in this program. She pointed out that some are more excited than others, possibly because of each county's prior knowledge of the program. Ms. Jones also pointed out another difficulty in estimating the number that can be served ahead of time is because of property valuation.

Mr. Rogers asked for other questions comments.

Ms. Harkins asked if we know how many farmers have been affected by our state funded projects. Mr. Rogers pointed out that it could be found out. Ms. Harkins indicated that we would like to know.

Ms. Harkins indicated that she wants to recommend that PACE come with a proposal, but does not want them to waste their time if the rest of the Board does not support this.

Ms. Yates indicated that she would be supportive of an application.

Mr. Rogers thanked the PACE group for their presentation, and noted that staff would be in touch with them.

Mr. Rogers continued with his Executive Director's report.

Mr. Rogers pointed out that Governor Fletcher is out of town today and sends his best.

Mr. Rogers thanked the Board for their hard work at the February meeting revising the model guidelines. Mr. Rogers pointed out that the guidelines are available on the web site and staff is using every opportunity to help answer questions about the revisions out in the counties.

Mr. Rogers noted that there was no Oversight Committee meeting this month, because of the General Assembly. Mr. Rogers anticipates a meeting in April after they adjourn. Mr. Rogers noted that several letters to Governor and Board have been received, regarding the Pig Improvement Company (PIC) project, and expects it to be an issue at the next Oversight Committee meeting.

Mr. Rogers stated that the Board will be provided some financial information starting with the April meeting, regarding the fund account, loans, payments due, etc.

Mr. Rogers reiterated that, given the dollar amounts the Board will be working with, it is important that the Board have the entire financial picture.

Mr. Rogers reviewed the legislative budget, and distributed a document containing the current budget scenarios in the General Assembly: Governor's Budget and the House Budget. Senate Appropriations and Revenue is currently marking up their budget.

Mr. Rogers announced that SB 146, KY Agriculture Finance Corporation, has passed the Senate and is going to the House floor from Committee unamended.

Mr. Rogers pointed out that a handout was distributed regarding the conference for entrepreneurial coaching in northeast Kentucky.

Mr. Rogers noted that the Red Project Review Committee reviewed an application from Belcan Partners this morning. Mr. Rogers announced that there will be a demonstration of Belcan Partners' product to a focus group of farmers. The target date is April 7 somewhere in Central Kentucky.

Mr. Rogers thanked all for their diligence today. Mr. Rogers noted that there are two things under new business this afternoon, as well as one under old business. Mr. Rogers thanked staff for the preparation of materials for the proposed amendments this afternoon.

Referral of April Projects¹

Mr. Rogers presented projects A2004-0034 to A2004-0085 for referral to the Board's Project Review Committees. Mike Slaughter moved that projects A2004-0034 to A2004-0085 be referred the Board's Project Review Committees; Eddie Sellers seconded the motion. The motion passed without dissent.

Approval of Model Programs²

Mr. Rogers submitted project A2004-0030 as a project meeting the model **Agricultural Diversification Program** guidelines.

Mr. Rogers submitted projects A2004-0023, A2004-0028, A2004-0048, and A2004-0056 as projects meeting the model **Fencing Improvement Program** guidelines.

Mr. Rogers submitted projects A2004-0034 and A2004-0054 as projects meeting the model **Forage Improvement & Utilization Program** guidelines.

Mr. Rogers submitted projects A2004-0025 and A2004-0044 as projects meeting the model **Genetics Improvement Program** guidelines.

Mr. Rogers submitted project A2004-0047 as a project meeting the model **Goat Diversification Program** guidelines.

Mr. Rogers submitted projects A2003-0656 and A2004-0045 as projects meeting the model **Cattle Handling Facilities Program** guidelines.

Mr. Rogers submitted projects A2004-0029, A2004-0046, and A2004-0055 as projects meeting the model **Hay, Straw & Commodity Storage Program** guidelines.

Danny Case moved the said applications be approved for the named model programs; Willa Poynter seconded the motion. The motion passed without dissent.

¹ A detailed list of the referred projects is attached as Appendix A.

² A detailed list of projects funded under each model program category is attached as Appendix B.

Review of Amendments

Commissioner Farmer presented the following amendment for approval.

A2002-0469, Green River Area Beef Improvement Group, Inc. (McLean), was approved for \$21,961.00 on August 16, 2002. A decrease of \$12,508.63 is requested for the Forage Improvement Program. The funds are to be reallocated to the Cattle Handling Program (A2003-0293). Approval of this request would bring the Project Funds to \$9,452.37.

A2002-0470, Green River Area Beef Improvement Group, Inc. (McLean), was approved for \$21,961.00 on August 16, 2002. The applicant requests a decrease of \$419.13 to the McLean County Genetics Improvement Program. These funds are to be reallocated to the Cattle Handling Program (A2003-0293). Approval of this request would bring the Project Funds to \$21,541.87.

A2003-0292, Green River Area Beef Improvement Group, Inc. (McLean), was approved for \$12,365.00 on July 18, 2003. The applicant requests a decrease of \$12,365.00 from the Forage Improvement Program. These funds are to be reallocated to the Cattle Handling Program (A2003-0293). Approval of this request would bring the Project Funds to \$0.00.

A2003-0294, Green River Area Beef Improvement Group, Inc. (McLean), was approved for \$12,365.00 on July 18, 2003. The applicant requests a decrease of \$12,365.00 from the Genetics Improvement Program. These funds are to be reallocated to the Cattle Handling Program (A2003-0293). Approval of this request would bring the Project Funds to \$0.00.

A2003-0293, Green River Area Beef Improvement Group, Inc. (McLean), was approved for \$12,365.00 on July 18, 2003. The applicant requests an increase of \$37,657.76 to the Cattle Handling Program. These funds are to be reallocated from the Cattle Genetics Program (A2002-0470, A2003-0294) and the Forage Improvement Program (A2002-0469, A2003-0292). Approval of this request would bring the Project Funds to \$50,022.76.

A2004-0017, Mercer County Conservation District, was approved for \$105,000.00 on February 20, 2004. The applicant requests a decrease of \$65,000.00 to the Forage Improvement Program. These funds are to be reallocated to the County's account. Approval of this request brings project funds to \$40,000.00.

A2001-0870, Magoffin County Conservation District, was approved for \$140,000.00 on February 15, 2002. The applicant requests a decrease of \$69,263.87 to the Forage Improvement Program. These funds are to be returned to the County's account. Approval of this request brings project funds to \$70,736.13.

A2002-0669, Henry County Boer Goat Association, Inc., was approved for \$20,000.00 on April 18, 2003. The applicant requests an increase in project funds of \$21,477.00 for the Goat Diversification Program. Approval of this request brings the project total to \$41,477.00.

A2003-0149, Oldham County Farm Bureau Federation, was approved for \$23,107.00 on April 18, 2003. The applicant requests an increase in project funds of \$6,893 for the Handling Facilities Program. Approval of this request brings the project total to \$30,000.00

A2002-0128, Trimble County Cattlemen's Association, Inc., was approved for \$24,000.00 on March 15, 2002. Staff requests a decrease of \$2,000 for this project, due to a typographical error. The correct amount for the project should be \$22,000.00.

A2002-0169, Green River Beef Genetics Improvement (Taylor), was approved for \$33,966.63 on April 19, 2002. The applicant requests a decrease of \$7,518.47 for the Taylor Co. Genetics Improvement Program. These funds are to be returned to the County account. Approval of this request brings the project total to \$26,448.16.

A2002-0172, Taylor County Forage Improvement, was approved for \$80,000.00 on April 19, 2002. The applicant requests a decrease of \$30,000 for the Taylor Co. Forage Improvement Program. These funds are to be returned to the County account. Approval of this request brings the project total to \$50,000.00.

A2002-0483, Green River Feeder Calf Association, Inc. (Taylor), was approved for \$46,417.00 on July 19, 2002. The applicant requests a decrease of \$11,946.86 for the Taylor Co. Handling Facilities Program. These funds are to be returned to the County account. Approval of this request brings the project total to \$34,470.14.

A2003-0048, Green River Feeder Calf Association, Inc. (Taylor), was approved for \$15,000.00 on March 21, 2003. The applicant requests a decrease of \$15,000 for the Taylor Co. Genetics Improvement Program. These funds are to be returned to the County account. Approval of this request brings the project total to \$0.00.

Mr. Sellers moved that the above amendments be approved; Mr. Hunt seconded the motion. The motion passed without dissent.

Committee Reports

Blue Project Review Committee

Smith Mitchell reported for the Blue Project Review Committee (PRC). Mr. Mitchell noted that the Blue PRC is presenting one (1) project for funding consideration.

Mr. Mitchell presented application **A2004-0009**. The application received a high priority from Knox County. The applicant, **Cumberland Gap Goat Producers Association**, requests \$3,379.00 in Knox County Agricultural Development Funds for the purchase of commercial vegetable equipment to be made available for shared use by all Knox County producers on a lease basis (\$5.00 / day). The equipment to be purchased is as follows: two bed shapers (\$4,830), and one water wheel setter (\$1,928). It is estimated that 40 Knox County producers will benefit from this equipment.

Mr. Mitchell reviewed the proposed terms and conditions for the project. Mr. Mitchell moved that A2004-0009 be approved for \$3,379 in Knox County funds; Mr. Moore seconded the motion. The motion passed without dissent.

Red Project Review Committee

Sam Lawson reported for the Red Project Review Committee (PRC). Mr. Lawson noted that the Red PRC is presenting three (3) projects for funding consideration.

Mr. Lawson presented project **A2004-0010**. The application received a high priority from Warren County. The applicant, **Southern Kentucky Regional Farmers' Market, Inc.**, requests \$10,000 in Warren County Agricultural Development Funds to establish a "producer only" market outlet in Bowling Green. Funds will be used for the start up phase of the new marketing outlet, which includes the cost of advertising and promotion, legal and accounting fees, and the cost of educational programs, seminars, and information sharing events.

As a regional producer-only market, the new site will be open to any Kentucky farmer. Thirty-five farmers from Warren, Barren, Edmonson, Allen, Simpson, Logan, and Butler Counties have indicated interest in the market.

Mr. Lawson moved that A2004-0010 be approved for \$10,000 in Warren County funds; Ms. Harkins second the motion.

Ms. Brown asked where we are with the marketing model program or farmers market program that had been discussed a while back. Mr. Lawson noted that Community Farm Alliance has a marketing plan that they have proposed. Ms. Brown noted, however, that the Board has not adopted one.

Mr. Sellers asked about the marketing component in the Agricultural Diversification program and if this application would fit into that. Mr. Bratcher pointed out that the model program is for individuals to increase their efforts. Mr. Bratcher added that county dollars have been used for farmers markets, outside of the Agricultural Diversification program.

Ms. Harkins asked what was done with study presented a few months ago. Mr. Rogers noted that Commissioner Farmer has appointed a taskforce, made up of KDA staff and others in agriculture and headed up by Brian Furnish (KDA Executive Director of Marketing & Product Promotion), to look at the study and other information to develop recommendations for the Board to adopt or consider, as soon as the General Assembly adjourns. Ms. Harkins asked if it would it be appropriate to include CFA's marketing plan in the discussion. Mr. Rogers noted that CFA is represented on the taskforce, and that the group will start with the regional market study and utilize other resources.

Ms. Brown clarified that the taskforce was mainly for regional farmers' markets. Ms. Brown synopsised the discussion: if counties are willing to put county funds in marketing on a local level, then the Board is okay with that, and the Board will focus state funds on the larger regional market efforts. Mr. Bratcher noted that to date no state funds had been used for a local farmers' market.

The motion passed without dissent.

Mr. Lawson presented project **A2004-0013**. The application received a high priority from Washington County. The applicant, **Washington County Cattlemen's Association, Inc.**, requests \$5,200 of Washington County Agricultural Development Funds to continue a Youth Master Cattlemen Program. The project will support and encourage Washington County youth with an interest in dairy and beef.

Mr. Lawson moved that A2004-0013 be approved for \$5,200 in Washington County funds; Mr. Stewart seconded the motion. The motion passed without dissent.

Mr. Lawson presented project **A2004-0015**. The application received a high priority from Washington County. The applicant, **Washington County Cattlemen's Association, Inc.**, requests \$60,640 of Washington County Agricultural Development Funds to continue a program that includes funding for three model programs and record keeping system (Cattle Herd Appraisal Program (CHAPS)). The program is set up on a three year schedule. After committing to the program each farm family becomes eligible to receive \$4,250 on a 50/50 cost-share basis for genetics, cattle handling, forage and record keeping (CHAPS), which is a required tool for this program.

In the first year the producer implements the CHAPS record keeping system and records the calves coming from the producers current practices. During the first year, the producer will also restrict pastures for the use of rotational grazing. Facilities will be renovated, and improved genetics obtained through bull or semen according to the model EPDs.

With the new practices in place, the producer will continue to record the calves, using CHAPS, and should expect to see improvement in their weaning weights. Then in the third year the producer will have implemented all four phases of the beef enhancement program. The producer should be recording increased weaning weights in calves, have additional forages available to stockpile for the winter, and give the consumer higher quality of beef, while increasing net farm income.

Mr. Lawson moved that A2004-0015 be approved for \$60,640 in Washington County funds; Mr. Moore seconded the motion. The motion passed without dissent.

Recommendations for No-Funding³

Mr. Mitchell presented projects A2003-0612, A2003-0022, and A2004-0032 as projects recommend for no-funding by the Blue Project Review Committee. Mr. Mitchell moved that no funding be awarded to same; Ms. Poynter seconded the motion. The motion passed without dissent.

Mr. Lawson noted that the Red Project Review Committee did not have any recommendations for "No-funding."

³ Detailed list of projects for a no-funding recommendation listed in Appendix C.

Old Business

Mr. Rogers began discussion of the West Kentucky Growers Cooperative (WKGC) project. Mr. Rogers pointed that materials for this project were in an overnight mailing, and a memo distributed in each member's update folder.

Mr. Rogers yielded the floor to David Bratcher and Bill McCloskey. Mr. Rogers pointed out that staff and Board of WKGC are still present.

Mr. Bratcher reviewed the memo distributed in the update folder, regarding the staff recommendation for WKGC.

Staff recommendation:

1. Accept the WKGC proposal, as well as waiving the late fees;
2. Modify the repayable loan
 - a. once interest due is paid, re-date the note with maturity date being maintained as 2022,
 - b. each December 31, WKGC will make payment to Board equal to 1.5% gross receipts,
 - c. payment used to retire principal debt, no more interest accruing on debt (0% interest), and
 - d. balloon payment in 2022, if all debt not retired;
3. Change date by which net worth goals must be met for the forgivable loan (made in 2001): currently 2007, recommend 2010;
4. Require monthly financial statements to be provided by WKGC and be compared to their budget;
5. Provide seven days notice for WKGC Board meetings, so GOAP staff may attend; and
6. Keep terms related to collateral in effect.

Mr. Bratcher noted that GOAP staff has discussed these recommendations with WKGC Board of Directors and staff.

Mr. Case asked what the Board's assurance is that this will not occur again. Mr. Bratcher opined that this notice of default has gotten everyone's attention. Mr. Bratcher pointed out that they are now current on interest payments.

Ms. Brown asked if the Board needs more than just the financial statements (e.g. copies of budgets, audits, minutes, etc). Mr. Bratcher noted that the current agreement addresses budgets, quarterly financial statements, audited statement; however there is no provision of minutes of the Board meeting, though GOAP staff will be in attendance at Board meetings and be provided the minutes. Ms. Brown asked about a business plan. Mr. Bratcher noted out that one was received. Ms. Brown asked if future budgets will be provided. Mr. Bratcher indicated that they would.

Ms. Brown does not want to put too much needless reporting and work on WKGC, but wants the accountability to be there: what are the goals of business plan and

are those goals are being attained. Ms. Brown inquired if a quarterly narrative update would be doable, related to the business plan and its goals. Mr. Bratcher restated Ms. Brown's request: the narrative report would provide comment to any veering away from budget/business plan, will they meet their goals - a progress report.

Mr. Rogers yielded the floor to Joe Cecil, WKGC Chief Executive Officer, to address Ms. Brown's questions and concerns. Mr. Cecil noted that they do make such progress presentations to the WKGC Board and realize that the business plan is a dynamic document. Mr. Cecil assured the Board that communication between WKGC and GOAP staff has improved.

Ms. Brown applauded WKGC on their efforts and reiterated that the communication to GOAP staff of information they are already providing their Board of Directors is crucial.

Mr. Hunt asked Ms. Brown about what specific pieces of information she is requesting. Ms. Brown restated her request: quarterly narrative update, copy of budget, copy of the minutes of the Board of Directors meeting, copy of the business plan and any amendments to the business plan.

Mr. Rogers noted that under the current agreement most of these requests exist, except the narrative.

Mr. Hunt asked if this would be adopted today. Mr. Rogers indicated that this was staffs recommendation for a Board decision and that any amendments can be made to this recommendation.

Mr. Cecil added that Larry Snell does evaluate the cooperative and could be a third party evaluation. Ms. Brown stated that she would prefer that the narrative come from the officers of the Board of WKGC.

Dean Smith shared his concerns about micro-management of projects. Dean Smith affirmed that the Board is concerned about accountability, but it needs to get to the point where we trust the staff and the receivers of the grant. Dean Smith acknowledged that the Board needs to deal with the problem, but he does not want to read the minutes of each Board meeting.

Ms. Brown agreed that she does not want the Board to become a bank either, but there is a benchmark of the kinds of accountability that the Board should expect, if and when there is a problem. Dean Smith indicated that he would be willing to leave it to discretion of the staff to specify that in a particular way. Dean Smith moved to adopt staff recommendation, as presented; Larry Clay seconded.

Mr. Lawson moved that the quarterly narrative be added, Dean Smith accepted this as a friendly amendment.

Ms. Poynter called the question. The motion passed without dissent.

New Business

Commissioner Farmer yielded the floor to Mr. Rogers to discuss the **Purchase Area Aquaculture Cooperative (PAAC)** project.

Mr. Rogers thanked Larry Snell and his staff at the Kentucky Center for Cooperative Development (KCCD) for their work with the cooperatives.

Mr. Rogers drew the Board's attention to the information from this week's overnight mailing. *[A copy is on file with the Board Secretary.]*

Mr. Rogers reviewed the issues at had for PAAC: 1) Assistance needed for operating funds and help purchase fish to meet needs of contracts, 2) current supply not ready to harvest, and 3) marketing is outpacing production.

Mr. Rogers yielded the floor to Mr. Bratcher and Marjorie May. Mr. Bratcher explained staff's recommendations for this project.

Staffs Recommendation:

1. Establish a revolving credit line with local bank;
2. Purchase a \$240,000 Certificate of Deposit (CD) and make available to bank in Hickman;
 - a. The bank will charge rate of 200 basis points more on credit line than on what paid on the CD;
 - b. The bank would have a first on all inventory and accounts receivable;
 - c. \$952,000 will be secured by mortgage on real-estate and equipment – not cross collateralized on the credit line.
 - d. CD available to bank as a standby payment /guarantee in the event it is necessary
 - e. CD good for one year and reevaluate the cooperative and the credit line – if necessary, then the CD could be renewed.
3. Conditions:
 - a. Provide a copy of audit for 2003 (~ May 2004),
 - b. Schedule a management audit with KCCD, and make the report available to the Agricultural Development Board
 - c. Examine recommendations made in an earlier KCCD audit and see how well those recommendations were implemented;
 - d. Reevalue pricing structure: making sure the payment to producer still allows for enough to pay operating expenses for the day-to-day operations of cooperative;
 - e. Develop a plan based on KCCD audit; and
 - f. Postpone payment of dividends to members, until the CD is paid back.
4. In the event that KCCD recommendations are not heeded, then PAAC will be considered in default;
5. This is a cross default agreement: default on one loan means default on all.

Mr. Case asked whose name will be on the CD. Mr. Bratcher stated that the Agricultural Development Board will be the name on the CD, and they will receive the interest. The CD is on a one year term with renewal options.

Mr. Hunt asked what is meant on the second page of the memo materials "... the grant agreement will be modified."

Mr. Bratcher noted that this is not being treated as a new project; we will be modifying their current agreement - the one done within the last 12 months.

Mr. Hunt asked about the out-of-state producers/Arkansas producers. Tom French addressed Mr. Hunt's question. Mr. French noted that there was not enough production in-state; 50% of PAAC's production is out-of-state. Mr. French also noted the difficulties in stimulating in-state production. Mr. French added that currently there are problems with in-state fish sizes; they are not at the proper harvest size, yet.

Ms. Harkins asked if there was any production in any other parts of the state. Ms. Caporelli noted that if there are fish in eastern Kentucky; however, transportation costs become a limiting factor. Ms. Caporelli also noted that Kentucky fish are currently not feeding; she pointed out that out-of-state production usually goes out in the summer when it is too hot.

Larry Snell, KCCD, clarified what PAAC's request is. Mr. Snell noted that, though some of this money will benefit producers out-of-state, this will be helping keep PAAC's marketing outlets, until Kentucky fish comes on-line, which is about a two to three month lag period.

Ms. Harkins asked what will happen this time next year. Mr. French stated that once over this hump they should be able to cash flow themselves. Mr. French explained the background of the problem and how this lag came about.

Ms. Brown clarified that she thought the recommendation was a short-term loan or line of credit at very loan interest rate, just to get over the hump over a few months time. Mr. Bratcher clarified the cash flow for PAAC and that the hump is a year, not a few months.

Mr. Rogers stated that the reason that staff is bringing this to the Board today is that if PAAC is not approved today, then they will not be in business next week. Therefore, many farmers will be out of business. Mr. Rogers noted that this is a stop-gap measure.

Ms. Brown wanted to know why contracts were not entered into when these agreements for product in Kroger and other markets were made. Ms. Caporelli shared that they cannot lock in on fish price with contract, because feed factors in and not a lot of growers will lock into a price. Ms. Brown wonders, when the short fall was noted, why was nothing done.

Joe Currin, PAAC Vice President, addressed Ms. Brown's concerns. He stated that there are not enough ponds to get production up; PAAC thought they would get pond cost-share last year for in-state production. When that did not happen then they had to go out-of-state. For long-term, more ponds are needed in-state.

Mr. French noted that the facility can process 4 million pounds of fish, but the members can only produce 2 million pounds. Ms. Brown points out that then there

are 2 million pounds that they need to be contracting out. Mr. French responded that fish farmers will not contract for a set price.

Mr. Rogers noted that letters from Representative Roger Thomas and Senator Ernie Harris (chairman for both Agriculture Committees in the General Assembly) were received encouraging the Board consider funding for pond cost-share. Mr. Rogers pointed out that staff did not feel it necessary to pursue this issue until we were sure that the Cooperative was going to remain in existence.

Ms. Poynter commented that if we do not help them, then all funding invested is lost. Mr. Rogers noted that the ADB has not provided PAAC a loan, and that the Board of PAAC is personally responsible for their loan at the bank.

Mr. Moore inquired as to how much the Board has invested in PAAC to date. Ms. May indicated that \$834,000 in state and county funds had been committed.

Mr. Hunt stated his views on how cooperatives should work and how they need to sustain themselves.

Dean Smith asked how responsive their sales price is to the live fish prices. Mr. French stated that they were buying live fish at \$.60/lb and selling product at \$2.89. Mr. French noted that for every \$0.05 that live fish price goes up, then the retail price goes up \$0.13. Dean Smith moved to accept the staff recommendation; Mr. Hunt seconded the motion.

Ms. Caporelli interjected that the growers have about \$5 million invested in this through pond construction, and other things. Mr. Hunt pointed out that there are other funds invested in this effort, as well, that could be lost on top of what the growers have invested, and that the growers have to run their business. Mr. Bratcher noted that we think they are paying too much to producers for the fish. Mr. Bratcher added that part of this plan is to pay the cooperative first, and then pay producers, but it is necessary for the cooperative to survive. Mr. Bratcher noted that there is a problem when there is a negative cash flow each month. Mr. Bratcher added that this is where the rubber meets the road, and that the KCCD plan is not a recommendation, but a mandate.

Mr. Sellers asked how much ponds cost. Several indicated that they cost \$5,000 - \$6,000 per acre. Mr. Sellers asked how many ponds need to be built to get production up so as to not have to buy out of state product. It was determined that 400 acres are needed, which comes to approximately \$2 million.

Mr. Stewart asked if there has been an effort to use shrimp ponds in eastern Kentucky. Mr. French noted that the problem with doing that is that the catfish must be caged, due to the size of the ponds; however, paddlefish would work well. Mr. Stewart asked if an effort been made to develop that area. Ms. Caporelli indicated that some effort had been made, but the cost of transportation to the purchase area is still prohibitive.

Ms. Lawson asked if there is such a close margin that we have to give the Coop the money and pay the farmers to dig the ponds; if so, then it is not a sustainable business.

Ms. Caporelli indicated that a lot of this has to do with the low prices the farmers were receiving and they stopped adding ponds, as a result.

Mr. French discussed history of the industry and the cooperative. Mr. French described the ag. cycle for aquaculture: drop in prices - drop in production; prices going up, but stock is not there currently.

Mr. Sellers asked that if there were enough ponds would there still be a loss projected. Mr. French indicated that if there were 800 acres of ponds in place today, then a profit would be made.

Mr. Moore asked what the average return (profit) per acre a producer could expect under normal circumstances. Mr. French indicated that \$500 + / acre could be expected, depending on the operation. However, when soybean prices are up, which is main ingredient in catfish feed, profits can decrease.

Mr. Sellers commented that he thought they were doing well because of the markets developed, but now that is actually the problem.

Mr. Rogers ended discussion, in the interest of time. Mr. Rogers reiterated the recommendation by Mr. Bratcher and the commitment of staff to help this succeed, but if necessary to bring the hammer down.

Commissioner Farmer called the question. The motion passed without dissent.

Mr. Rogers provided a quick overview of the issue with the **Green River Produce Marketing Cooperative (GRPMC)**. Mr. Rogers reviewed the current situation some of which is out of GRPMC's control.

Mr. Rogers noted the main issue out of GRPMC's control involves Direct Countercyclical Program (DCP) acreage. DCP acreage came from the 2002 Farm Bill and established that a farmer with no crop history could get a corn, soybean, and wheat base. The farmer could have more base acreage than cropland. The problem is mainly in Logan and Todd Counties where there is heavy production of wheat and double crop soybeans. Horticultural products are not allowed on DCP acreage. This is also a large portion of GRPMC's cantaloupe production, which can no longer be grown on those acres without foregoing all of federal payments for those producers. Mr. Rogers indicated that talks with those on the Federal level have been occurring over the last six weeks. The door is about closed on this issue, and the USDA will not change this policy. GRPMC is in a major shortfall of acreage, thus in a cash flow shortfall. They are requesting \$73,000 so that the cooperative can remain open.

Mr. Rogers yielded the floor to Bill McCloskey.

Mr. McCloskey reviewed the materials sent to the Board, regarding the cooperative.

Mr. McCloskey reviewed their budget numbers. Mr. McCloskey stated that staff recommends funding the request of \$122,000. Of this request, \$72,490.24 would be disburse after the legal agreement is executed to cover the projected 2004

operating shortfall and payoff the operating line balance with Pioneer Bank. The remainder is to be set aside for 2005 at which point GRMPC will have to report to the Board on 2004 operations and present a business plan for 2005. To receive the remainder of the funds (\$49,509.76) GRPMC must operate within the proposed budget for 2004 and present a break even budget for 2005.

Mr. McCloskey noted that Michael Gentry, Chris Clark, Jeff Hornback, Laura Powers, and Larry Snell present to answer any questions.

Dean Smith asked from where the acres for next year will come. Mr. Gentry, General Manager, noted that, given the time constraint, those with the DCP issue cannot adjust their acres that are not under DCP fast enough to compensate for this growth.

Mr. Rogers noted that currently they will need to focus growth of the cooperative north and east of Horse Cave to avoid the DCP issue. Mr. Gentry commented that several of the growers in the DCP area indicated that if they had enough time they could have adjusted their planting arrangements, but they are not able to do that this year.

Mr. Rogers asked Mr. Gentry to comment on their successes in obtaining new acreage. Mr. Gentry shared with the Board the additional counties that have shown interest in participating in the cooperative.

Mr. Hunt moved for approval of the staff recommendation; Mr. Stewart seconded the motion.

Mr. Sellers asked if there is a "hammer" in this one. Mr. Rogers stated that the "hammer" is they will be shut down within a year.

Mr. Case how many more cooperatives will be coming back. Mr. Snell responded that he is not aware of any that would be coming within the next six months.

Commissioner Farmer called the question. The motion passed without dissent.

Mr. Rogers reviewed the memo amending the policy regarding payable and forgivable loans. The policy relates to a delay greater than six months in disbursing the funds, due to the applicant.

Ms. Dudgeon clarified that we are asking that the legal agreements be executed in six months.

Mr. Moore moved to accept this retroactive policy; Ms. Harkins seconded motion. The motion passed without dissent.

Mr. Rogers brought the hay handling issue back to the table, since a clear direction was not obtained during Project Review.

Mr. Sellers stated that the Blue Project Review Committee wanted to wait on Lewis County pilot project.

Mr. Lawson noted that it was suggested that if the other counties wanted to join in and this become a cooperative effort – as one group – then it was okay. Mr. Lawson clarified that if they wanted to do this as a group, then that is okay, but we are not interested in doing a statewide model program, yet.

Mr. Sellers clarified that the model program discussion was not the issue, but rather whether or not to let these five counties participate in the pilot.

Mr. Rogers clarified that issue at hand is whether or not to let the counties surrounding the pilot county to participate, since the pilot project does not end until September of this year.

Mr. Case asked if this would hinder the hay market. Sandy Gardner, Project Analyst for the area, indicated that the counties requesting participation in the pilot hay handling feel that this program would enhance their participation in the hay auctions.

Mr. Case moved to entertain applications from the five Buffalo Trace counties for the hay handling pilot program; Dean Smith seconded the motion. The motion passed without dissent.

Closing Remarks

The next meeting of the Kentucky Agricultural Development Board will convene at 1:00 p.m. on Friday, April 16, 2004 at a location "To Be Determined".⁴ Note time and location of meeting subject to change; ample notification will be given if such a change occurs.

The meeting adjourned at 4:30 p.m.

APPROVED: _____

PRESIDING OFFICER: _____

SECRETARY: _____

⁴ After the March meeting, the April meeting was rescheduled for 1:00 p.m. Thursday, April 29 at the Franklin County Cooperative Extension Office in Frankfort.

New Applications for Referral

Appl #	Project Name	Project Type
A2004-0034	Lincoln County Farm Bureau Federation	Forage Improvement
A2004-0035	Lincoln County Farm Bureau	Forage Improvement
A2004-0036	Lincoln County Farm Bureau	Forage Improvement
A2004-0037	Lincoln County Livestock Improvement Association	Genetics Improvement
A2004-0038	Lincoln County Cattle Handling Facilities	Handling Facilities Cost Share
A2004-0039	LCCA	Hay, Straw and Commodity Storage
A2004-0040	Lincoln County Goat Producers	Goat Diversification
A2004-0041	Cumberland Farm Products	Project
A2004-0042	Lincoln County Farm Bureau Federation	Project
A2004-0043	Great Meadows Angus Associaion	Project
A2004-0044	Green River Area Beef Improvement Group, Inc.	Genetics Improvement
A2004-0045	Green River Area Beef Improvement Group, Inc.	Handling Facilities Cost Share
A2004-0046	Wolfe County Conservation District	Hay, Straw and Commodity Storage
A2004-0047	Ft. Harrod Goat Association c/o Mercer County Extension	Goat Diversification
A2004-0048	Mercer County Farm Bureau	Fencing Improvement
A2004-0049	Magoffin County Cattle Association	Agricultural Diversification
A2004-0050	Mountain Cattleman Association	Project
A2004-0051	Mountain Cattleman Association	Genetics Improvement
A2004-0052	Mountain Cattleman Association	Project
A2004-0053	Spencer County Public Schools	Project
A2004-0054	Spencer County Conservation District	Forage Improvement
A2004-0055	Lee County Conservation District	Hay, Straw and Commodity Storage
A2004-0056	Lee County Conservation District	Fencing Improvement
A2004-0057	Muhlenberg County Cattleman's Association	Forage Improvement
A2004-0058	Muhlenberg County Fair Board	Project

New Applications for Referral

Appl #	Project Name	Project Type
A2004-0059	Washington County Shiitake Mushroom Growers Association, Inc	Project
A2004-0060	Madison Southern High School	Project
A2004-0061	Madison County Conservation District	Forage Improvement
A2004-0062	Madison County Farm Bureau Federation	Hay, Straw and Commodity Storage
A2004-0063	Madison County Beef Cattle Association	Handling Facilities Cost Share
A2004-0064	Madison County Conservation District	On-farm Water Enhancement
A2004-0065	Madison County Farm Bureau Federation	Agricultural Diversification
A2004-0066	Madison County Beef Cattle Association	Genetics Improvement
A2004-0067	McDowell Farms Salsa, LLC	Project
A2004-0068	Metcalfe County Cattleman's Association	Handling Facilities Cost Share
A2004-0069	Bracken County Ag. Advancement Council	Genetics Improvement
A2004-0070	Fayette County Farm Bureau	Project
A2004-0071	Carroll County Agricultural Development Fund, Inc.	Hay, Straw and Commodity Storage
A2004-0072	Acres of Land Winery, Inc.	Project
A2004-0073	GRABIG	Handling Facilities Cost Share
A2004-0074	GRABIG	Forage Improvement
A2004-0075	Magoffin County Conservation District	Fencing Improvement
A2004-0076	Rowan County Fiscal Court	Handling Facilities Cost Share
A2004-0077	Johnson County Ag. Advancement Council	Project
A2004-0078	Wildside Vines Winery	Agricultural Diversification
A2004-0079	Agriculture Marketing Institute, Inc.	Project
A2004-0080	Menifee Beef Producers, Inc	Hay, Straw and Commodity Storage
A2004-0081	Menifee Beef Producers, Inc.	Fencing Improvement

New Applications for Referral

Appl #	Project Name	Project Type
A2004-0082	Barren River Regional Livestock Center	Project
A2004-0083	Mason County Agricultural Advancement Council	Project
A2004-0084	Mason County Boundary Fence Cost Share Program	Fencing Improvement
A2004-0085	Marion County Fair Board	Project

APPENIDIX B: *Model Program Lists*

Agricultural Diversification

Board Date	App #	Fiscal Agent	County	Funds Approved
March '04	A2004-0030	Mason County Agricultural Diversification Council	Mason	\$75,000.00

Fencing Improvement

Board Date	App #	Fiscal Agent	County	Funds Approved
March '04	A2004-0023	Caldwell County Farm Bureau	Caldwell	\$12,633.00
March '04	A2004-0028	Green County Cattlemen's Association	Green	\$100,000.00
March '04	A2004-0056	Lee County Conservation District	Lee	\$15,750.00
March '04	A2004-0048	Mercer County Farm Bureau	Mercer	\$40,000.00

Forage Improvement

Board Date	App #	Fiscal Agent	County	Funds Approved
March '04	A2004-0034	Lincoln County Farm Bureau Federation	Lincoln	\$21,000.00
March '04	A2004-0054	Spencer County Conservation District	Spencer	\$50,000.00

Genetics Improvement

Board Date	App #	Fiscal Agent	County	Funds Approved
March '04	A2004-0025	Caldwell-Lyon Cattlemen's Association	Caldwell	\$12,633.00
March '04	A2004-0044	Green River Area Beef Improvement Group, Inc.	Webster	\$1,000.00

APPENDIX B: *Model Program Lists*
Goat Diversification

<i>Board Date</i>	<i>App #</i>	<i>Fiscal Agent</i>	<i>County</i>	<i>Funds Approved</i>
March '04	A2004-0047	Ft. Harrod Goat Association	Mercer	\$20,000.00

Handling Facilities

<i>Board Date</i>	<i>App #</i>	<i>Fiscal Agent</i>	<i>County</i>	<i>Funds Approved</i>
March '04	A2003-0656	Shelby County Cattlemen, Inc.	Shelby	\$60,000.00
March '04	A2004-0045	Green River Area Beef Improvement Group, Inc.	Webster	\$4,563.20

Hay, Straw, & Commodity Storage

<i>Board Date</i>	<i>App #</i>	<i>Fiscal Agent</i>	<i>County</i>	<i>Funds Approved</i>
March '04	A2004-0055	Lee County Conservation District	Lee	\$21,000.00
March '04	A2004-0029	Mason County Agricultural Advancement Council	Mason	\$40,000.00
March '04	A2004-0046	Wolfe County Conservation District	Wolfe	\$36,024.02

Recommendations of No Funding - ***Blue Committee***

App #	Project Name	County
A2003-0612	Natural Resources and Environmental Protection Cabinet	Franklin
A2004-0022	Smallwood/Crawford Fall Festival	Clay
A2004-0032	Vera Aircraft & Pest Control	Scott